



Transparency of Business Incentives: A Summary

Tennessee uses a diverse array of incentives to entice businesses and industries to relocate to Tennessee, begin or expand operations, or remain within the state. The degree of transparency differs across these incentives because each is subject to different regulations and is administered by different government entities. Evaluations are not required for most business incentive programs.

More information about these and other business incentives, as well as policy options, are available at <http://www.comptroller.tn.gov/OREA/>.

Description		Transparency
Payment in Lieu of Tax (PILOT) Agreements	A local government authority, typically an industrial development board (IDB), takes ownership of a business property, thereby exempting the property from property taxes, and leases the property to a business. The business makes lease payments to the local government in lieu of the property taxes that would have otherwise been paid absent the PILOT agreement.	When an IDB and a business are negotiating the terms of a PILOT agreement, the details of the emerging agreement often remain confidential. Once the proposed PILOT agreement is brought before the IDB for approval, the public can learn the details of the proposed PILOT agreement because all IDB meetings are open to the public. Due to a 2018 law, which takes effect in October 2018, IDBs will also be required to hold a public hearing before a PILOT agreement is brought before the IDB for approval and public notice of the hearing must be posted at least five days prior.
	Businesses benefit from PILOT agreements because they pay a percentage of the full amount in property taxes that would have otherwise been paid absent the PILOT agreement.	A business in a PILOT agreement has two reporting requirements. The first requirement is to submit a copy of the PILOT agreement to the Comptroller's Office (COT), which serves as the repository for all PILOT agreements in the state. The agreements must include a cost benefit form. Businesses must also submit an annual PILOT report to COT that includes such information as the amount of payments made in lieu of property taxes. The annual PILOT reports are compiled by COT and posted online in a searchable database open to the public.
Tax Increment Financing (TIF)	A local government authority, typically an industrial development board (IDB), borrows money for an economic development project and pays back the loan using the increases in property tax revenues that result from the economic development project. TIF projects can be funded through private loans issued by banks and other institutions. TIF projects can also be funded through bonds.	TIF plans must be approved by a tax increment agency, (typically an IDB) and the local legislative body (e.g., city council). The tax increment agency must hold a public hearing about TIF plans and post a notice of the hearing at least two weeks in advance. Local legislative bodies also are required to post a public notice for their meetings, including any meetings where a proposed TIF plan is brought before the body for approval. Tax increment agencies must file an annual statement with the State Board of Equalization (SBOE) outlining the amount of property tax revenue allocated to repay the TIF-related debt. Annual statements are not posted online. Information on TIF projects financed through bonds are posted on the EMMA site, a searchable database of all bonded debt. A tax increment agency may also post information about private loans on the EMMA site, but as of May 2018 they are not required to do so. The majority of TIF projects use private loans.
Tax Credits	Business tax credits in Tennessee are based on number of jobs created, amount of money invested, type of business, equipment purchased, and location (i.e., an additional tax credit can be claimed by businesses that create jobs in economically distressed counties). Business tax credits reduce the amount of franchise and excise taxes, and/or the amount of sales and use taxes, owed by a business.	A 2015 state law requires the Department of Revenue and the Department of Economic and Community Development to publish a review of business tax credits every four years and recommend whether each credit should be modified, discontinued, or left alone. The first review was published in 2016, and included recommendations to consider restructuring certain credits and to replace one credit. The review also recommended an annual report from the two departments to increase transparency, improve consistency of monitoring, and encourage collaboration among various state agencies. In 2017, the General Assembly required the Department of Revenue to begin submitting an annual report on tax credits that includes information such as the number of businesses claiming credits, the total amount of credits claimed, the number of jobs created each fiscal year (for credits claimed based on job creation), and the total amount of credits carried forward from a prior tax year. Information in the annual report is reported in the aggregate and does not disclose specific credits given to specific businesses. The annual report is not posted online, but Tennessee's yearly Comprehensive Annual Financial Report does include descriptions and total amount of revenue foregone as a result of each credit.
Tourism Development Zones (TDZs)	A municipality borrows money for an economic development project in a tourism development zone and pays back the loan using the growth in sales and use tax revenues produced in the zone as a result of the economic development project. There are two types of tourism development zones in Tennessee: tourism development zones, and border region retail tourism development zones.	Municipalities must approve the creation of a TDZ through an ordinance or resolution; thus, the meetings in which tourism development zones are discussed and voted on are open to the public, and posted notice of these meetings is provided by the municipality. Local authorities must submit a tourism development zone designation or plan to the Department of Finance and Administration for approval. In April 2018, the General Assembly passed House Bill 2235, which requires local authorities to submit an annual report to the Department of Finance and Administration and the State Building Commission. The new law does not require reports be published online, but the Department of Revenue's annual report, which is posted online, gives information about the allocation of sales and use tax revenues. According to the department's fiscal year 2017 report, approximately \$58 million in sales and use tax revenues were allocated to TDZs. Information on projects financed through bonds are posted on the EMMA site, a searchable database of all bonded debt. Municipalities may also post information about private loans on the EMMA site, but as of May 2018 they are not required to do so.
Grants	Grants may be awarded by the state to qualifying businesses that commit to train or retrain employees, add jobs, or make new investments in Tennessee. Grants may also be provided to businesses through a specific state appropriation. These appropriations may be proposed by the Governor for inclusion in the <i>upcoming</i> fiscal year's budget or through a supplemental appropriation request to the <i>current</i> year's state budget. State legislators may also propose a specific state appropriation as a business incentive through an amendment to the annual appropriations bill.	Grants administered through the Department of Economic and Community development have regular reporting requirements and most reports are published online. Grant programs administered by the Department of Labor and Workforce Development do not have reports published online. A description of grants awarded through direct appropriations may be found in the appropriation bills published on the General Assembly's website. The Department of Economic and Community Development and the Attorney General have the authority to keep certain grant-related information confidential if the release of such information would harm the state's business recruitment efforts, such as by placing the state at a competitive disadvantage relative to other states in enticing a business to move to Tennessee. Please see the full report for more information about the state's various grant programs.